

PERPETUAL WHOLESALE ACTIVE FIXED INTEREST FUND CLASS A



November 2020

FUND FACTS

Investment objective: Aims to provide investors with regular income by investing in fixed income securities, primarily corporate bonds. Outperform the Bloomberg AusBond Composite Index (before fees and taxes) over rolling three year periods.

Benchmark: Bloomberg Ausbond Composite Index
Inception date: February 2017
Size of Strategy: \$585.9 million as at 30 September 2020
APIR: PER8045AU
Management fee: 0.40%*
Suggested minimum investment period: Three years or longer

FUND BENEFITS

Active management of credit risk through sector and sub sector rotation, curve positioning and relative value trading. Strategically maintain duration at benchmark, tactical overlay at extremes.

FUND RISKS

All investments carry risk and different strategies may carry different levels of risk. The relevant product disclosure statement or offer document for a fund should be considered before deciding whether to acquire or hold units in that fund. Your financial adviser can assist you in determining whether a fund is suited to your financial needs

TOTAL RETURNS % (AFTER FEES) AS AT 30 November 2020

	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA	INCEPT PA
Perpetual Wholesale Active Fixed Interest Fund Class A ^{1,3}	0.18	1.61	2.67	3.09	7.03	5.41	-	-	5.49
Perpetual Wholesale Active Fixed Interest Fund Class W ^{2,3}	-	-	-	-	-	-	5.20	5.54	6.17
Bloomberg Ausbond Composite Index	-0.11	1.25	1.51	3.04	6.80	5.33	4.69	5.13	-

¹ Class A of the Perpetual Active Fixed Interest Fund (Fund) has been operating since February 2017. This row represents the actual past performance of Class A of the Fund.

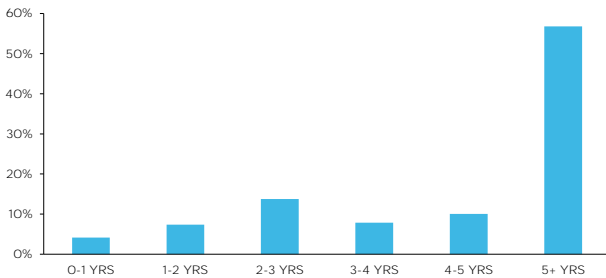
² To give a longer term view of the performance of the Fund, the returns for Class W, which has been operating since July 2004, are shown. Class W has identical investments to Class A. We have adjusted the return of Class W to reflect the fee applicable to Class A (a 0.45% Management Fee). This has been calculated by subtracting the fees for Class A from the actual gross past performance for Class W.

³ Past performance is not indicative of future performance.

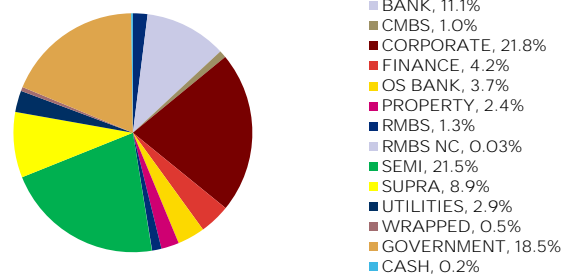
POINTS OF INTEREST

- Markets surge on vaccine news; Credit spreads tighten;
- RBA announces QE and further cuts;
- Primary issuance active; demand robust;
- The outlook for credit is positive.

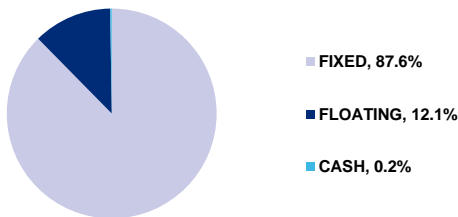
MATURITY PROFILE



PORTFOLIO SECTORS



FIXED AND FLOATING BREAKDOWN



PORTFOLIO COMPOSITION

	BREAKDOWN
Senior Debt	93.94%
Subordinated Debt	6.06%
Hybrid Debt	0.00%
Running Yield	1.39%
Portfolio Weighted Average Life (yrs)	6.79
No. Securities	134
Modified Duration	5.78

* Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

MARKET COMMENTARY

Global markets had a very strong November with multiple equity markets posting record performance. The stellar performance in risk assets was driven by positive vaccine news and the resolution of the US presidential election. Domestically, increasing interstate mobility and reduced restrictions in Victoria were positive for markets.

Domestic credit spreads tightened significantly. Non-financial corporates outperformed financials overall. Corporate spread tightening was led by industries disproportionately impacted by COVID-19 including retail REITs, airlines and infrastructure. The hunt for yield accelerated with **investors' risk appetites increasing** and lower rated debt outperforming.

The RBA reduced the cash rate and 3-year yield targets to 10bps in November. The decision was mostly priced in however and positive vaccine news alongside the resolution of the US presidential election led to a sell off in yields. Conversely, reduced discount rates and the introduction of a \$100B QE program was supportive for credit spreads and equity valuations.

Primary markets were active in November with new issuance meeting robust demand. Bendigo and Adelaide Bank issued \$650m of senior unsecured paper. The deal represented the first significant senior unsecured issuance from an Australian bank since February 2020 as result of access to **the RBA's Term Funding Facility**. NBN Co. came to market to raise \$1.2B in their inaugural deal. Towards the end of the month, Ampol raised \$500M in a hybrid transaction which was met with strong demand and was oversubscribed, pricing tighter than guidance.

PORTFOLIO COMMENTARY

The portfolio collected running income in excess of the benchmark across all corporate sectors. Non-financial corporates were the most significant contributors to income return. The portfolio running yield at month end was 1.39% with the spread measured at 0.94% above the benchmark.

Credit spread tightening was the main contributor to outperformance during November. Credit spreads tightened significantly following well received vaccine news, US election results and monetary policy easing. Credit spread tightening was broad based with contributions from non-financial corporates, non-bank financials, domestic and offshore banks.

Interest rate dynamics slightly detracted from relative performance. Yields rose as bonds sold off following the positive vaccine news. **This was in spite of the RBA's** decision to cut the 3-year yield and cash rate targets and commence quantitative easing. The yield curve steepened as the front end remained relatively stable while longer tenors sold off. Swap spreads rose out of negative territory, which also detracted slightly from outperformance.

During November, the manager took the opportunity to increase the portfolio's credit exposure, trimming government debt exposure. Primary market issuance was active throughout the month. The manager elected to take part in Ampol's hybrid deal which was met with robust demand. The Portfolio invested in Bendigo and Adelaide Bank's \$650 million senior unsecured deal which represented the first significant senior unsecured issuance from an Australian bank since February 2020. Senior issuance has been very subdued since the RBA's Term Funding Facility was established. The portfolio also took part in NBN Co's 5-year, \$1.2B inaugural issuance in late November.

OUTLOOK

The credit outlook has continued to improve and remains positive.

Valuation indicators are slightly positive. Domestic and international spreads remain in range of medium-term averages. Cross currency swap levels are positive for the valuation outlook.

Macro indicators have improved and are now marginally negative. Expectation of economic growth have improved to neutral for the first time since February. Conditions remain supportive for equity capital raising which has a slightly positive impact on the macro outlook. Credit downgrades remain the main impediment to the macro outlook.

Supply and demand factors remain supportive for spreads. Credit supply is being impacted by seasonal factors and domestic banks' access to the RBA's Term Funding Facility. Market positioning and technical indicators remain marginally positive.

The outlook for credit spreads is positive. The macroeconomic outlook has improved while central bank support and improved trading conditions continue to support valuations. The team remains well positioned to exploit relative value opportunities while defending capital.

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